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FISCAL IMPACT STATEMENT

LS 7887

BILL NUMBER: SB 605

NOTE PREPARED: Jan 13, 2005

BILL AMENDED:

SUBJECT: Employee training tax credits and programs.

FIRST AUTHOR: Sen. Ford

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides a tax credit for employee training expenses incurred under a program certified by the Indiana Economic Development Corporation. It requires the amount of any federal deduction allowed for employee training expenses to be added back to a taxpayer's adjusted gross income if the training expenses credit is claimed. It provides a tax credit for payroll expenses of student employees participating in a work based learning program certified by the Department of Workforce Development. The bill also establishes the Workforce Skill Advancement Project. It requires individuals who apply for Unemployment Insurance to participate in the project.

Effective Date: July 1, 2005; January 1, 2006.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional administrative expenses related to changing tax forms, instructions, and computer programs to accommodate these new tax credits. The DOR's current level of resources should be sufficient to implement these changes.

Indiana Economic Development Corporation (IEDC): The bill requires the IEDC to certify programs to qualify for the Employee Training Credit which is a state tax credit for qualified employee training expenses paid by an employer. The IEDC must also keep track of the amount of tax credits approved and publish annual reports. The bill further allows the IEDC to adopt necessary rules and to charge credit recipients fees to cover administrative costs. Fee revenue would be deposited in the agencies' operating funds.

Department of Workforce Development (DWD): The bill requires the DWD to certify programs to qualify for the Work Based Learning Credit which is a state tax credit for student employee payroll expenditures. The

DWD must also keep track of the amount of tax credits approved and publish annual reports. The bill further allows the DWD to adopt necessary rules and to charge credit recipients fees to cover administrative costs. Fee revenue would be deposited in the agencies' operating funds.

The Workforce Skill Advancement Project is established in the bill to be administered by the DWD. The Project is funded with set asides from the following sources: (1) Wagner-Peyser Act, (2) Workforce Investment Act, and (3) Skills 2016 Training Fund. There are no data to indicate the cost of the Project. The FY 2004 ending balance in the Skills 2016 Training Fund was \$32.7 M, with the balance as of January 11, 2005, totaling about \$31.5 M. The FY 2004 ending balance in the Workforce Investment Act Fund was \$1.3 M, with the balance as of January 12, 2005, totaling about \$1.2 M. The balance in the Wagner-Payser Act is unknown and will be updated when the information becomes available.

Under the bill, an individual applying for unemployment insurance must participate in a program that includes key skills assessment and a skill remediation component either in the individual's current occupation or in another occupation. Regional boards along with elected officials will develop a plan of short term training options and placement assistance. Basic reading, writing, and math skills, certified nursing assistant training, and computer skills are among the list of short term training areas. The regional boards also may exempt individuals from the requirements of the Project and temporarily unemployed individuals may choose to participate. DWD will receive reports from regional boards and compile the reports for the General Assembly.

Explanation of State Revenues: *Summary:* This bill creates two tax credits which could reduce state revenue from the Adjusted Gross Income (AGI) Tax, the Sales and Use Tax, the Financial Institutions Tax, and the Insurance Premiums Tax. Total credits claimed under each credit is limited to \$25 M annually; a combined maximum of \$50 M annually. The revenue impact of the credits could begin in FY 2007.

In addition, the bill also provides for an income tax add-back of training expenses claimed for federal income tax purposes for those taking the Employee Training Credit. This would increase state taxable income of credit recipients which would provide a minimal offset of the revenue loss from the tax credit. The precise impact of this add-back is indeterminable.

Employee Training Credit: This bill provides a tax credit for qualified training expenses incurred during a given tax year. Eligible training expenses include tuition, fees, wages paid to an instructor, materials, supplies, textbooks, and rental fees for training facilities and equipment. The taxpayer submits to the Department of State Revenue certification of the training program. The tax credit is limited to 40% of qualified training expenses and may not exceed the lesser of: (1) 110% of the entity's previously estimated expenses for that tax year as certified by the corporation; (2) \$100,000; or (3) the entity's tax liability. If the expenses certified exceed \$100,000 or the taxpayer's liability or if the taxpayer incurs operating losses, credits may be carried forward to subsequent years. Carrybacks or refunds would not be permitted. The maximum credits allowed in any tax year may not exceed \$25 M.

Work-Based Learning Credit: This bill provides a tax credit for student employee payroll expenditures made during a given tax year. The expenditures must be part of a program approved by the Department of Workforce Development. A taxpayer must submit an application to the DWD for approval and certification of a proposed work-based learning program. The tax credit is limited to 40% of qualified payroll expenses and may not exceed the lesser of: (1) \$100,000; or (2) the entity's tax liability. If the expenses certified exceed these limits or the taxpayer incurs operating losses, credits may be carried forward to subsequent years. This tax credit may not be carried back or refunded. The maximum credits allowed in any tax year may not exceed \$25 M.

Both credits may be applied against a taxpayer's tax liability from the Gross Income Tax, Adjusted Gross Income (AGI) Tax, Supplemental Net Income Tax, Bank Tax, Savings and Loan Association Tax, Insurance Premium Tax, Financial Institutions Tax, and Gross Retail or Use Taxes. These credits would apply to tax years beginning January 1, 2006, and will affect revenue collections annually beginning in FY 2007. The total amount of credits approved annually may not exceed \$50 M. (However, if some credits are carried forward, the total revenue loss could exceed \$50 M in a particular year.) Individual AGI Tax revenue is deposited in the state General Fund, and corporate income tax revenue is deposited in the General Fund and the Property Tax Relief Fund.

Add-back of federal deduction for training expenses: The bill also provides that any amount deducted for training expenses under the Internal Revenue Code on a taxpayer's federal tax return must be added back to state taxable income for purposes of determining liability under the Individual AGI Tax and the Corporate AGI Tax. However, this add-back only applies if the taxpayer claims any amount of the Employee Training Credit in a given tax year. The add-back would offset some of the revenue loss associated with the credit, however, the offset presumably would be minimal. Every \$100 in creditable training expenses added back to taxable income would result in additional tax liability of \$3.40, reducing the net training expense credit amount to the taxpayer \$96.60.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue, Indiana Economic Development Corporation, Department of Workforce Development.

Local Agencies Affected:

Information Sources:

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